

# QFACT

## TRANSITION TO RETIREMENT

A transition to retirement strategy can provide additional flexibility for those planning the period prior to full-time retirement. Some possible uses are to assist with saving more into superannuation, getting a better work life balance through working fewer hours or even having more income to spend.

Transition to retirement allows individuals who have reached their *preservation* age (at least 55), to access their benefits as a regular income without having to retire completely or leave their employment.

These regular payments, in the form of a transition to retirement pension, can be used to supplement other income from employment or through a period of unemployment. For those still working or intending to work, it may be the only way to drawdown funds from superannuation.

### How could it be used while working?

An employer may offer arrangements for flexible use of leave entitlements, the ability to work parttime and the ability to take leave without pay. Access to these options would need to be negotiated with an employer. Reduced working hours will mean lower rates of pay, and a transition pension may help to top up income to meet living expenses and provide a better work/life balance.

### Is it necessary to go part-time to access super using transition to retirement?

You are not required to reduce your working hours to implement a transition to retirement strategy. In fact, many people continue to work fulltime and still set up a transition to retirement pension.

### The ability to save more

In some circumstances, salary sacrificing more of employment income to super and replacing this income with a transition to retirement pension can result in a net increase in superannuation savings. This strategy is likely to work better for people aged 60 and over who can receive tax-free payments from their transition pension.

### More money for expenditure

Sometimes existing income may not be enough to meet debt payments or other lump sum expenses. Additional income support from superannuation, through the use of a transition pension, may assist. However, be aware that this approach will erode retirement savings which could affect long-term retirement planning and the lifestyle that can be enjoyed in retirement.

### What happens when I fully retire?

Once fully retired, a transition pension can continue into retirement – there is no need to close it. The pension can be used just like a normal *account based* retirement pension (previously called allocated pension) where there are no restrictions on lump sum withdrawals or limits on the maximum income that can be paid.

### The details

Lump sum superannuation benefits are usually preserved until certain criteria are met, such as reaching preservation age (at least 55) and declaring an intention not to work again. There are other circumstances when lump sum benefits can be accessed.

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## Continued

However, for those still working or intending to work, after age 55 and up to 65, a transition to retirement pension may be the only way to drawdown superannuation funds.

The transition to retirement pension is an account based pension, but with some limitations. Account based pensions require decisions to be made about how funds are invested, and will continue to pay a benefit as long as funds are available in the account. At least one payment a year must be made from these pensions, and in the case of a transition to retirement pension payments must be between 4 and 10% of the account balance in a full year. These payments are not taxed after age 60, and may have a tax offset under age 60.

If the account holder dies the residual benefits will go to a dependent or to the estate. Decisions about these options are best made at the time of establishing the transition to retirement pension.

In the case of QSuper, funds can be transferred from either an accumulation and/or defined benefit account to establish the transition to retirement pension. The full account balance does not have to be transferred into the pension, but must be a minimum of \$30,000. Careful consideration needs to be given, particularly where defined benefit funds are being used to establish a transition to retirement pension. Specialist financial advice is recommended.

## Is it right for you?

Transition to retirement can be a useful tool to provide added flexibility in the pre-retirement years, and to assist with financial readiness in retirement. Your personal circumstances will determine whether it is right for you. An important point to consider is that long-term retirement goals still need to be met.

## Advice from Q Invest

Transition to retirement can be a complex area. Our Financial Advisers specialise in helping public sector employees and can help you to make the right decisions about transition to retirement. To make an appointment call Q Invest on 1800 643 893.

## CASE STUDY

Jim is 60 and a Queensland government employee who earns \$75,000 gross or \$55,256<sup>1</sup> after tax, Medicare levy and his 5% superannuation contribution (salary sacrificed). His QSuper accumulation account balance is \$350,000. He is considering his options including working full-time or part-time at 3 days a week. He wishes to maintain the same level of net income, and is unsure what impact a transition strategy would have on his superannuation balance in the lead up to retirement. Strategies are devised which give the following outcomes:

Option 1: Work fulltime, save more and maintain income. Using a combination of tax free-income from the transition pension and making additional salary sacrifice contributions into superannuation, a net increase of \$6,871<sup>2</sup> in super savings is possible in the 2011/12 year.

Option 2: Work parttime and maintain income. Again, the strategy uses a combination of tax free-income from the transition pension and additional salary sacrifice into superannuation. The net outcome is a decline in his super balance of \$21,879<sup>2</sup> in the 2011/12 year for having two days off per week while maintaining the same net income..

1 Flood levy not included. 2. Only tax considered. Does not include investment income